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POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Notice of Price Adjustment) Docket No. R2013-1

PUBLIC REPRESENTATIVE COMMENTS
IN RESPONSE TO UNITED STATES POSTAL SERVICE NOTICE OF
MARKET DOMINANT PRICE ADJUSTMENTS

(November 1, 2012)

I. INTRODUCTION

The Public Representative hereby comments on the Postal Service's notice of price adjustments, effective January 27, 2013, for market-dominant postal products filed pursuant to 39 U.S.C. §3622 and 39 CFR part 3010.[1] The Adjustment Notice also proposes several mail classification changes and revisions to the Mail Classification Schedule. The Commission's notice of the filing provides for comments by interested persons on the Adjustment Notice no later than October 31, 2012.[2]

The Public Representative comments upon the following issues discussed separately below.

1. Price cap limitation including classification changes and revenue forgone;
2. Workshare discounts;
3. Standard Mail Flats price adjustment; and
4. Classification change expanding applicability of Credit Card Authorization Fee.

[1] United States Postal Service Notice of Market-Dominant Price Adjustment (Adjustment Notice) October 11, 2012.

[2] Notice and Order on Planned Rate Adjustments and Classification Changes for Market Dominant Postal Products, Order No. 1501, October 15, 2012.

II. BACKGROUND

This is the fifth notice of price adjustment filed by the Postal Service pursuant to section 3622 of the Postal Accountability and Enhancement Act, Pub L. 109-435, 120 Stat. 3198 (2006) (PAEA). The first review of price adjustments for market dominant products was filed February 11, 2008 for rate adjustments to be effective May 12, 2008 and resulted in the Commission's Order No. 66 accepting all but one of the price adjustments.[3]

- The second notice of price adjustments for market dominant products was filed one year later on February 10, 2009 for rates to be effective May 11, 2009. The Commission's Order No. 191 found the price adjustments to be within the annual limitation and properly reflecting the statutory preferences of 39 U.S.C. §3626 and that workshare discounts satisfied the requirements of 39 U.S.C. §3622(e).[4]

  As a result of the negative CPI-U calculation for the relevant period, no notice of price adjustment was filed in 2010.

- A third notice of price adjustment was filed January 13, 2011 for essentially all market dominant products effective April 17, 2011. That proceeding culminated with Commission Order No. 675 revising the proposed market dominant price adjustments and addressing issues with Standard Mail Flats. It also considered the use of unapproved methodological principles and compliance with the price cap.[5]

- The fourth price adjustment was filed October 18, 2011 for price changes effective January 22, 2012. Commission Order No. 987 approved the price adjustment and classification changes. The Order discussed commenter concerns about price increases for automated letters and Standard Mail Flats and Carrier Route products, Periodicals passthroughs

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[3] Docket No. R2008-1, Review of Postal Service Notice of Market-Dominant Price Adjustment, Order No. 66, March 17, 2008.

[4] Docket No. R2009-2, Order Reviewing Postal Service Market Dominant Price Adjustments, Order No. 191, March 16, 2009.

[5] Docket No. R2011-2, Order Revising Postal Service Market-Dominant Price Adjustments, Order No. 675, February 16, 2011.

below 100 percent, and concern that Standard Flats did not comply with the Commission's Annual Compliance Determination. The Commission also approved a large number of classification changes.[6]

- This fifth notice of price adjustment was filed October 11 2012 for rate increases effective January 27, 2013. The Postal Service proposes to raise prices for all classes from between 2.56 to 2.85 percent. In addition to several minor classification changes, a single-piece price for single-piece residual letters and an international forever stamp are proposed. Contrary to Commission Order, Standard Mail Flats rate increases are at, but not above, the average CPI-U increase allowable for Standard Mail. Approval is requested for six promotions to be held during Calendar Year 2013.

III. DISCUSSION

A. PRICE CAP LIMITATION

Commission Rule 2010.13(b) provides that public comments on price adjustments should focus on whether the price adjustments comply with mandatory requirements of the PAEA related to annual and maximum limits on rate adjustments. The annual limitation is defined by law and Commission regulations. 39 U.S.C. §3622(d) and 39 CFR part 3010, *et seq*.

The Postal Service's annual price cap limitation authority for changes in rates for this proceeding is based upon the most recently available data at the time of filing from the Bureau of Labor Statistics through August 2012. This value is the percentage change between the average annual value of the Consumer Price Index-All Urban Consumers (CPI-U) during September 2011-August 2012 on the one hand, and September 2010-August 2011 on the other. For this price cap proceeding, the Postal

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[6] Docket No. R2012-3, Order on Price Adjustments for Market Dominant Products and Related Mail Classification Changes, Order No. 987, November 22, 2011 at 2-4.

Service may raise prices for five market dominant mail classes by 2.570 percent plus the Unused Authority present for each of these classes.

Table 1 below shows the unused authority available by class, the annual cap, the Postal Service's proposed price increase per class, and the unused authority remaining after the price increase.

Table 1
Price Cap Values for FY 2013

	Unused Price Authority	**2011/2012 Cap**	**Percentage Price Change**	**Remaining Unused Authority**
Class	**%**	**%**	**%**	**%**
First Class	-0.530	2.570	2.570	-0.530
Standard	-0.380	2.570	2.570	-0.380
Periodicals	-0.562	2.570	2.560	-0.552
Package Services	-0.533	2.570	2.569	-0.532
Special Services	2.394	2.570	2.850	2.114

1. Classification Changes Proposed In Rate Case

In the Adjustment Notice, the Postal Service is proposing that the Commission separately approve six promotional price discount programs during the coming year, but chooses to include the revenue foregone from three of these (temporary) promotions in its annual cap calculations. Adjustment Notice at 7-8, and 18. The Postal Service notes it has previously submitted promotions of market dominant products in procedures separate from its annual rate change filing. *Id. at* 7. The Public Representative is concerned that approving promotions within an expedited price increase proceeding offers an insufficient time for interested parties as well as the Commission to consider adequately the benefits and costs of the promotions.

The Postal Service's Adjustment Notice provides an Attachment with calculations of the range of contribution it expects each participating product to provide as well as expected total contribution. The Postal Service expects the 6 promotions to provide contributions between approximately $882 million and $1.56 billion. Adjustment Notice, Attachment D, worksheet: "Summary."

The Commission has addressed some information requests into whether the promotions are NSAs or may be considered examples of permitted pricing flexibility, so long as they are offered to all First Class and Standard mailers.[7] However, the Public Representative has not had sufficient time to suggest additional questions to be posed about these calculations to determine whether the promotions are justified on economic grounds. The Public Representative expects the same is true for other parties as well. More importantly, the Commission may not obtain this needed information before a decision in this rate proceeding is required. The public interest would not be served if only limited information is available for analysis of these promotions.

The Public Representative recommends the Commission defer ruling on the requests for these promotional rates and changes in the Mail Classification Schedule subject to the Postal Service fling additional information to comply with the full requirements of section 3010.14(b) of the Commission's rules for rate adjustments. ..

2. Revenue Forgone in Price Cap Calculation

The Postal Service has never before included the revenues foregone from promotions in a price cap calculation. It is accepted practice to include the revenue foregone from certain permanent discounts, such as the discount for Periodical editorial content, and other discounts linked to preferred rates. These discounts are tied to the Postal Service's USO obligation because they reduce revenues they might receive

[7] It is not clear the programs are open to all and are non-discriminatory. *See e.g.*, Chairman's Information Request No. 3, October 24, 2012, question #3.

absent the Congressionally-mandated obligation. Discounts tied to promotions have the intent of increasing volume, revenue, and contribution. The Postal Service expects revenue and contribution from these discounts to increase by as much as $4 million and $1.5, respectively, after the cost of the discount. If revenue and contributions from the promotion are expected to increase, there would be no justification for including the discount as foregone revenue.[8] At the very least, the Commission should open a rulemaking on the price cap handling of temporary promotions intended to encourage demand.

Ideally, the Commission would not allow the inclusion of revenue foregone from temporary promotions in price cap calculations until after the conclusion of further inquiries on this issue. But, Tables 2 and 3 demonstrate that excluding revenue foregone from the price cap calculation would push the price increase for First Class Mail above the cap to 2.615 percent and Standard Mail to 2.687 percent. This would create the procedural difficulty of either requiring the Postal Service to resubmit its price cap proposal, or approve the proposal conditioned upon the Postal Service modifying its price increases for First Class and Standard Mail to remain at or below 2.57 percent without including the revenue foregone from temporary promotions. If the Commission approves the new promotions and includes revenue foregone from temporary promotions during FY 2011, it should do so in a manner which sets no precedent in order to leave these issues ripe for consideration in a subsequent rulemaking. In particular, further inquiry is needed to determine whether temporary promotional

[8] *See*, USPS Attachment D.xls, Worksheet: "Summary," Cells: P14, P17, and P18.

discounts should have the same status as a Universal Service Obligation (USO) that permits the Postal Service to include forgone revenues as a price cap line item.

Table 2
Comparison of First Class Price Increase
With and Without Including Foregone Promotional Revenue

					No Revenue Foregone	
	Volume	**Before Rates Revenue**	**After Rates Revenue**	**USPS Percent Change**	**Before Rates Revenue**	**Percent Change***
	(000)	**(000)**	**(000)**	**%**	**(000)**	**%**
Single-Piece Letters & Cards	23,695,058	$10,812,683	$11,059,544	2.283%	11,059,544	2.283%
Presort Letters and Cards	44,306,675	$15,808,477	$16,212,346	2.555%	16,212,346	2.555%
Flats	2,101,087	$2,714,479	$2,787,082	2.675%	2,787,082	2.675%
Parcels	315,431	$761,449	$799,301	4.971%	799,301	4.971%
FCM International		$489,739	$528,539	7.923%	528,539	7.923%
Promotions Foregone Revenue			-$13,836		0	
Total	70,418,251	$30,586,828	**$31,372,977**	**2.57%**	**31,386,813**	**2.615%**

Source: CAPCALC-FCM-R2013.xls, Worksheet: “Percent Change Summary”
* Before Rates, Weighted Percent Price Increase

Table 3
Comparison of Standard Price Increase
With and Without Including Foregone Promotional Revenue

	Without Revenue Foregone	Current Proposal
At Current Prices	16,680,270,248	16,680,270,248
At New Prices	17,128,403,278	17,108,876,743
Change	**2.687%**	**2.570%**

Source: CAPCALC-STD-R2013.xls, Worksheet: “Percent Change Summary”

3. Aside From Eliminating Revenue Forgone, Prices Comply with Price Cap Limitations and Preferred Mail Discount Requirements

Aside from the issue of whether revenue foregone from temporary promotions may be included in the price cap calculation as the Postal Service proposes, overall, based on the information currently available, the Pubic Representative believes that the total price adjustment for each class of mail falls within both the price cap limitation authority and the requirement in the Commission's rules and the PAEA to provide preferred rates for non-profit Standard Mail, Library Mail, and Periodicals.[9] Given the billing determinants and cost and revenue estimates assumed by the Postal Service, the planned rate adjustment percentages using the formula established in section 3010.23(b) are at or below the annual limitation in section 3010.11(relating to the limit on size of rate increases) and comply with the limitation in section 3010.28 (relating to maximum size of rate adjustments when employing unused rate adjustment authority) and complies with the rate cap limitation in 39 U.S.C. §3622(d). It appears that the total price adjustment for each class of mail falls within the price cap limitation with the exception of First Class mail if revenue foregone is not included in that class.

B. Workshare Discounts

1. General Discussion

The Postal Service has traditionally used price cap filings made subsequent to ACR filings to bring discounts into closer alignment with avoided costs. It is unfortunate that the Postal Service has chosen to file its Annual Adjustment prior to its ACR. The Commission does not know if the subsequent filing of ACR FY2011 will bring

[9] It still remains to be seen if the Postal Service's answers to several of the Commission and Chairman's Information Requests indicate whether any mail class pierces its cap.

passthroughs above 100 percent more in alignment with the principles of efficient component pricing (ECP), or whether it will result in substantial departures from ECP principles. Absent that information, and the Postal Service's perfunctory cites to legal exceptions to justify passthroughs above 100 percent, the Commission may find it has little choice other than to accept them.

Table 4 shows the status of the passthroughs for 134 potential worksharing discounts: the number of discounts equal to 100 percent; below 80 percent and above 120 percent; the number between 80 and 100 percent, the number between 100 and 120 percent, the number of categories without worksharing discounts – simple samples, high density plus, and BPM categories without an appropriate cost model.[10]

Table 4
Worksharing Categories

Simple Samples	3	2%
BPM Without Cost Model	18	13%
High Density Plus	3	2%
100%	13	10%
Less than 80% and Greater than 120%	71	53%
Between 100% and 120%	7	5%
Between 80% and 100%	19	14%

Source: Attachment B Workshare_Final.xls

Table 4 is instructive because it shows that over 50 percent of passthroughs are substantially above or below 100 percent.[11]

[10] *Id*., 50. Even though Section 3622(e)(2) of title 39 does not show concern for passthroughs below 100 percent, the Comments of John Panzar in ACR FY2010, provide convincing arguments that discounts substantially below 100 percent open the possibility of pricing to exclude competitive entry. *See,* Docket No. ACR2011, Comments of John C. Panzar on Behalf of Pitney Bowes Inc., February 3, 2012. The Postal Service casually dismisses discounts below their avoided costs, but the Commission should seriously consider whether such passthroughs pose questions of entry foreclosure and propose effective solutions within its authority.

[11] The Public Representative has adopted this degree of difference from ECP as substantial, primarily because it believes a 20 percent advantage over competitors seeking to enter the worksharing market against an incumbent monopolist would provide a barrier to entry, and a passthrough greater than 120 percent gives mailers with that passthrough a competitive advantage against mailers who can only obtain passthroughs of 100 percent or less. One might choose a wider deviation from 100 percent,

2. Passthroughs Substantially Above and Below 100 Percent

The Postal Service justifies passthroughs above 100 percent by arguing that moving towards greater equality between avoided costs and discounts would cause rate shock, would prevent operational improvements, or it promises to "observe the effects…and determine what price adjustments may be appropriate in the future." [12] *Id*. at 49. The Commission has accepted most of the workshare-related exceptions provided by the Postal Service in the past. The Public Representative believes the Commission should reject passthroughs that substantially disadvantage one group of mailers relative to others, or which create substantial entry barriers to worksharing competition. The large number of substantially problematic passthroughs appearing every year should be definitively addressed by the Commission.

3. Worksharing Relationships

The Postal Service proposes a number of new rate categories it claims are without a worksharing relationship to nearby rate categories. Others are proposed with unexplained inconsistencies in the worksharing relationships. Two Postal Service proposals especially concern the Public Representative in this proceeding: 1) Severing the worksharing relationship between high density and the new category of high density plus letters and carrier route letters, *Id*. at

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perhaps 60%-140% as indicating a passthrough of substantial concern. This would still result in over 50 of the 134 worksharing discounts, or nearly one-third, would be substantially above or below 100 percent.

[12] With the exception of this quote, the Postal Service primarily relies on the exceptions allowed in PAEA, Section 3622(e)(2).

50, and 2) Elimination of High Density Parcels as a price category with the introduction of "Simple Samples."

The Postal Service introduces a new product, High Density Plus Saturation Letters, which it pairs with High Density Saturation Letters. Concomitant with this action, it severs the worksharing relationship between them and Carrier Route Letters. The Postal Service maintains that the former two are now in a separate market from Carrier Route Letters and so are priced independently of worksharing relationships. The Postal Service maintains that so long as the passthrough between Carrier Route Letters and High Density remains far below 100 percent, Carrier Route Letter mailers will have little to no incentive to prepare their mail to qualify for High Density status.[13] *Id*. at 50.

However, the Postal Service fails to consider whether mailers of Carrier Route Letters *would* improve their mail and prepare High Density mailings if the worksharing incentives were based upon ECP principles. The Commission properly has asked the Postal Service for more information justifying the pricing structure that the Postal Service has established between High Density and Carrier Route Letters.[14] The Public Representative is concerned that the inefficient pricing structure established by the Postal Service is designed to create a "wall" between High Density and Carrier Route Letters. This would allow the Postal Service to justify the presence of separate markets,

[13] Their passthroughs, based on discounts and avoided costs from carrier route letters, are approximately 20 percent. *See*, Attachment B Workshare_Final.xls, worksheet: "Standard Mail HD-Sat Letters."

[14] Chairman's Information Request No. 4, October 25, 2012, question #3.

solely by discriminatory pricing. The Commission should take appropriate action to eliminate this discrimination.

The Postal Service also seeks a change, possibly "game-changing," in the pricing structure of Carrier Route Parcels. The Postal Service has eliminated High Density Parcels as a rate category with no justification, and so has been able to eliminate worksharing discounts based on avoided costs between High Density and Carrier Route Parcels. *Id*. at 50. The Postal Service justifies this change solely based upon its belief that "Simples Samples will prove to be a more attractive price structure than its predecessor in Saturation and High Density Parcels…." *Id*. at 50-1. The Public Representative is concerned that the Postal Service has unilaterally eliminated pricing structures in favor of prices that are not based upon efficient pricing principles, namely ECP. The Public Representative urges the Commission to be diligent by protecting worksharing relationships based upon Efficient Component Pricing as the best method of maintaining efficient preparation practices by the mailing community, and providing competition for the Postal Service's mail processing activities.

Finally, the Public Representative finds the pricing structure of Carrier Route Parcels unjustified and irrational. The Postal Service eliminates the destination entry pound discount, and replaces it with volume discounts. Its pallet handling fees do not follow worksharing relationships, which the Commission has found result in an efficient pricing structure. For example, if a mailer enters Carrier Route Parcels at the DNDC sorted to the 5 digit level (which may be on a 5-digit pallet), the mailer will face a $74 pallet (handling) charge, a $30 penalty for not performing less sortation. However, if the mailer dropships the same mailing further into the system to the DSCF, it will receive a

$40 discount. The Postal Service offers little justification for eliminating worksharing and the efficient pricing on which it is based when it says: “there no longer are workshare discounts to compare to avoided costs. The Postal Service believes that Simples Samples will prove to be a more attractive price structure than its predecessor in Saturation and High Density parcels, given the simplified preparation and pricing structure.” *Id.* at 50. While the current volume of Carrier Route Parcels is small, the Public Representative is beginning to see a pattern which may signal the beginning of the dismantling of ECP. The Public Representative urges the Commission to seriously inquire into this matter and consider the issue.

C. Standard Mail Flats Price Adjustment Ignores Court Approved Commission Directive

In this Adjustment Notice, the Postal Service has again failed to comply with the Commission’s directive to move the prices for Standard Mail Flats toward a fair and reasonable cost coverage approaching 100 percent by *increasing Standard Mail Flats cost coverage with above-average price adjustments*. Valpak has raised this issue with its recent Motion to strike the Standard Mail price adjustment.[15]

The Public Representative believes the Valpak proposal for the Postal Service to remedy its error by refilling a “meaningful” above-average price increase for Standard Mail Flats would be desirable, but may provide only a short term solution. By delaying compliance with the directive to move toward 100 percent coverage, the losses from the shortfall in institutional cost coverage have continued and will continue to mount in

[15] Valpak Direct Marketing Systems, Inc. and Valpak Dealers’ Association, Inc. Motion to Strike Standard Mail Price Adjustment From United States Postal Service Notice of Market Dominant Price Adjustment (Valpak Motion), October 22, 2012.

dollars counted in the billions. The years are ticking away and full compliance with 100 percent cost coverage is now likely further away than it was two years ago. It is apparent the Postal Service needs further direction. The Commission must take the next step to move toward the 100 percent coverage within a reasonable time period without the delays inherent by relying only on anticipated potential cost savings to meet the requirement. Rather, the Public Representative proposes the Commission take a longer view to reach 100 percent compliance by directing reasonable rate increases for Standard Mail flats over a measureable time frame of, for instance, 3, 5 or 7 years.

The Commission addressed this coverage issue in February, 2011 and directed the Postal Service to move toward a100 percent cost coverage for Standard Mail Flats.[16] Shorty thereafter, the Commission found the loss by Standard Mail Flats of $1.4 billion over three year period (FY 2008- FY 2010) constituted an unfair and inequitable cost apportionment to all Standard Mail Users.[17] The Standard Mail Flats prices did not comply with section 101(d) of title 39 (requiring costs of all postal operations to be apportioned to all users on a fair and equitable basis) and were found unlawful. Most significantly, the Commission then ordered remedial action directing the Postal Service *to increase Standard Mail Flats cost coverage with above-average price adjustments* to begin with the next market dominant price adjustment after March 29 2011, and to

[16] *See* Docket No. R2011-2, Order Revising Postal Service Market-Dominant Price Adjustment, Order No. 675, February 16, 2011 at 4. The Commission said that "[W]hile the Postal Service could have designed rates to reduce, rather than increase, intra-class cross-subsidy, the proposed prices are consistent with the price cap. Commenters raise significant concerns about Standard Mail Flats pricing similar to previous views offered by the Commission. The Postal Service may not have had the benefit of those opinions prior to submitting its Notice. Upon consideration of them, it may wish to amend its filing to address those concerns. At a minimum, however, they must be addressed in future price adjustment filings."

[17] FY 2010 ACD, March 29, 2011 at 16, states that "the Standard Flat product is not in compliance with this important policy (equitable apportionment of all costs) of title 39. (Parenthetical added.)

submit a schedule of future above-CPI price increases for that mail within 90 days. *Id*. at 106-107.[18] On appeal, that order was affirmed by a court on April 17, 2012 and is now final.[19] The Commission thereafter reaffirmed its directive to, among other things, *increase Standard Mail Flats cost coverage with above-average price adjustments* in the next notice of market dominant price adjustment, *i.e*. in this proceeding.[20]

In this case, the price cap for Standard Mail is 2.570 percent. The Postal Service proposes a price increase for Standard Mail Flats by the exact same percent, 2.570. Clearly, the price adjustment is not an above-average price adjustment.

The Postal Service's justifications for not complying with the Commission's clear directive are not sufficient. One ground is disingenuous. For support, the Postal Service cites to Commission speculation in its order on remand about grounds that might have supported a Commission finding of lawful Postal Service action whereas the finding of unlawful rates for Standard Mail Flats has already been reached and affirmed. The Postal Service cannot now reargue the issue of lawfulness by again contending above average price increases would impair its ability to enhance its revenue/contribution under the price cap.[21] Valpak's Motion cites to other shortcomings in the Postal Service's "Standard Mail Contrition Model" such as ignoring the products' elasticities, inconsistently reporting the impact on of various scenarios on revenues, and

[18] Additional remedies regarding reporting and estimates in then future price adjustment notices of the progress toward 100 percent coverage were also ordered. While the Postal Service initially failed to comply with those directives in this docket, Postal Service responses to information requests in this case arguably provide that information.

[19] *U.S. Postal Service v. Postal Regulatory Commission*, 676 F.3d 1105, 1109 (D.C. Cir. 2012).l

[20] Docket No. ACR2010-R, Notice and Order Confirming Termination of Stay, Order No. 1472, September 21, 2012.

[21] *See* Adjustment Notice at 21.

only considering the impact of compliance on Standard Mail letters.[22] The Public Representative believes those Valpak arguments also have merit.

The Public Representative is concerned that at the speed that rate coverage improvement is proposed and anticipated, the statutory goal will not be reached within a reasonable period of time. It is not demonstrated that cost savings will ever reach a 100 percent cost coverage and certainly not in a reasonable time frame. Thus, the Postal Service's program will yield only persistent non-compliance with specific directives in Commission's Orders. The Commission must enforce its orders to insure that the intent and purposes of the PAEA are met. It is the Commission's responsibility to insure compliance. To that end, the Public Representative supports Valpak's proposal to strike the Standard Mail price adjustment, but, whether or not the Commission takes that step, proposes the Commission take the matter one step further to provide guidance to the Postal Service and the public about the future direction of the Standard Mail Flats' rate.

The Commission should consider the total percent increase in price per piece required of Standard Mail Flats to reach 100 percent cost coverage and then, as well as taking into account the effect of any realistic cost savings estimates, spread the needed increase in price over 3, 5, or 7 years, using a cumulative formula. The Public Representative has undertaken a rough calculation of the level of rate increases that might be needed to reach full contribution for Standard Mail Flats. Postal Service data is used from the Standard Mail Price Cap filing for 2011. That data is used for volumes, revenues based on the existing price increase (which is essentially nothing) including both non-profit and commercial standard flats volumes and revenues, as well as pound

[22] Valpak Motion at 8.

rated pound revenue, to get the average current revenue per piece of approximately $0.39 per piece. Then, the revenue per piece is calculated to make up a needed extra $500 million in remaining contribution. Finally, the total percent increase in price per piece needed to obtain full coverage is calculated and spread over 3, 5 and 7 years. See Attachment.

Below are the results which would also apply to nonprofits. As Table 5 indicates, the resulting percentage increases in order to reach the 100 percent cost coverage goal in a measurable and reasonable time frame, to be selected, are not dramatic. If some realistic cost savings in future years are taken into account these amounts would be lower.

TABLE 5

Extra Rev/pc Needed (assumes no decline)	**17.0%**
Cumulative Annual Rate Growth Needed over 3years	**5.373%**
Cumulative Annual Rate Growth Needed over 5 years	**3.190%**
Cumulative Annual Rate Growth Needed over 7 years	**2.268%**

See Attachment herein for supporting detail.

D. Classification Change to Expand Applicability of Credit Card Authorization Fee

The Postal Service proposes to expand the application of its Special Services Change of Address Credit Card Authentication service. The MCS currently provides for a fee of $1.00 charged for change of address service “requests submitted over the Internet or by telephone” to verify the identity of a customer using a customer’s credit card information. MCS Schedule 1525.

The Postal Service proposes an expanded service renamed “Credit Card Authentication.” The MCS language is revised and expanded to charge the $1.00 fee” when customers use a credit card' to verify the customer's identity to the Postal Service, "and/or authenticate a credit card."

It appears the language change will, or at least could, significantly increase the amount of fees derived from credit card authentication and in fact, if applied according to a strict interpretation of the proposed language, could and may be applied every time a customer seeks to use a credit card for a retail purchase. Currently, the authentication applies only to verify identity for change of address service when the customer is not dealing in person with the Postal Service. Revenues for this service for FY 2011 were $12,059,412.[23] As proposed, the authentication fee will be, or might be, charged to authenticate a credit card whenever a customer uses a credit card. The Postal Service's workpapers for this Special Service show no adjustment for anticipated increases in these fees over the base year.[24]

While it is logical for the Postal Service to pass on the cost of authenticating a customer's identity, the Postal Service has not explained in its Notice whether and how often it expects to authenticate credit cards used by customers and thereby charge a fee of $1.00 that is not currently charged. If the authentication service were applied to every credit card purchase, the fees would increase significantly. The Commission should request clarification from the Postal Service about the anticipated use of the credit card authentication service and its impact on customer purchases as well as estimated revenue impact. Although the revenue impact relative to overall Special Services would not affect compliance with the price cap, frequent application of the fee

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[23] ACR2011, USPS-FY11-4, FY 2011 Special Services.xls.

[24] USPS-LR-R2013-1/5, Special Services Cap compliance. No adjustment to the Billing Determinants is estimated for this change.

for credit card use could impact customers' perception about the convenience and value of the Postal Service that may have broader negative implications for retail sales.

IV. CONCLUSION

The Public Representative submits the foregoing Comments for the Commission's consideration.

Respectfully submitted,

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ATTACHMENT

Fixed Inputs for the Base Year		
Volume (Million)	6,136,510,455	**(1)**
Average Revenue per Piece after Rate Increase (includes lb revenue)	0.39	**(2)**
Revenue ($ Million)	2,375,859,012	**(3)**
Contribution at 83%	1,971,962,980	**(4)**
Full Contribution	2,375,859,012	**(5)**
Extra Revenue Needed	403,896,032	**(6)**
Extra Revenue Needed/pc	0.065818519	**(7)**
Total % increase per piece	17%	**(8)**
Exrtra Rev/pc Needed (assumes no volume decline)		
Cumulative Annual Rate Growth Needed over 3 years	**5.373%**	**(9)**
Cumulative Annual Rate Growth Needed over 5 years	**3.190%**	**(10)**
Cumulative Annual Rate Growth Needed over 7 years	**2.268%**	**(11)**
Sources		
(1) CAPCALC-STD-R2013.xls, Sheets: L-F-P Com. Cap Weights and L-F-P Com. NP Cap Weights - Flats Only		
(2) CAPCALC-STD-R2013.xls, LFP Revenue@New Prices - Sum of Flats Revenue Only		
(3) (1) * (2)		
*4) (3) * (2)		
(5) Responses of USPSto Questions 1-6 of CIR No. 1.. StandardFlats.xls, Sheet: FY11-13 Cost Coverage		
(6) = (3)		
(7) (5) - (4)		
(8) (6) / (1)		
(9) (1+(8))^(1/3) - 1		
(10) (1+(8))^(1/5) - 1		